



U.S. Department of the Interior
Office of Inspector General

INSPECTION REPORT

**MANAGEMENT OF THIRD-PARTY DRAFTS
AT SELECTED LOCATIONS,
NATIONAL PARK SERVICE**

**REPORT NO. 96-I-640
MARCH 1996**



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

MAR 29 1996

MEMORANDUM

TO: The Secretary
K. V. Wil. for

FROM: Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Inspection Report for Your Information -
"Management of Third-Party Drafts at Selected
Locations, National Park Service" (No. 96-I-640)

Attached for your information is a copy of the subject final inspection report.

The National Park Service's Accounting Operations Division and Southeast Regional Office were generally effective in accounting for and controlling third-party drafts. However, we concluded that the Division could reduce the cost of administering third-party drafts by eliminating its reviews of field office documentation supporting the draft transactions and by processing contractor invoices expeditiously. Also, we found that the Southeast Region and its parks were not fully complying with established internal control procedures related to administrative reviews, signature authority, blank draft inventories, and Imprest Fund Manual requirements. The Park Service agreed to correct these weaknesses.

If you have any questions concerning this matter, please contact me or Ms. Judy Harrison, Assistant Inspector General for Audits, at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

MAR 29 1996

INSPECTION REPORT

Memorandum

To: Director, National Park Service
 From: Judy Harrison *Judy Harrison*
 Assistant Inspector General for Audits
 Subject: Final Inspection Report on Management of Third-Party Drafts at Selected Locations, National Park Service (No. 96-I-640)

INTRODUCTION

This report presents the results of our inspection of National Park Service management of third-party drafts at its Accounting Operations Division and Southeast Regional Office. The overall objective of our inspection was to determine whether third-party drafts were properly issued, accounted for, and controlled at these locations.

BACKGROUND

Third-party drafts are negotiable instruments (similar to checks) issued for payments of imprest fund-type transactions and drawn against the funds of a third-party contractor. The Park Service's contractor is Chemical Bank of New York, New York. Department of the Treasury regulations for third-party drafts are contained in the Treasury Financial Manual (Volume I, Part 4, Chapter 3000), and additional guidance is provided in the Park Service's "Third-Party Draft System Policy and Procedures," issued in May 1990. The Park Service limits each third-party draft issued to \$2,500. In fiscal year 1994, the Park Service issued about 140,000 third-party drafts, totaling approximately \$37 million. At the end of fiscal year 1994, the third-party draft system was in use at 324 individual park and office sites within the Park Service.

The Park Service's Accounting Operations Division is responsible for ensuring that established policies and procedures for third-party drafts are followed, posting honored drafts to the accounting system, and processing invoices for contractor services. Regional administrators are responsible for oversight and coordination of regional third-party draft activities, and third-party draft site managers are responsible for oversight of draft activities of individual parks and offices. The site managers appoint third-party draft agents, who are authorized to issue third-party drafts and are administratively accountable for their proper use. Some parks have more than one draft agent.

Third-party drafts issued by draft agents are processed and paid by the contractor on a daily basis as they are received. The contractor provides the Park Service with a daily electronic record of the drafts honored or rejected, which includes the draft amounts and the official accounts charged with the expenditure of funds. This electronic record is used to automatically update the Park Service's on-line official accounting system, the Federal Financial System. The contractor is reimbursed for the total amount of honored drafts on a daily basis by requesting payment through the Department of Health and Human Services Smartlink system. The contractor provides the Park Service with a written report showing each day's payment request, which includes the total amount of honored drafts for that day, credit given for drafts returned from the prior day, and other adjustments.

Based on information obtained from the contractor, the Park Service provides each third-party draft agent with a daily activity report of the third-party drafts honored or rejected by the contractor each day, which enables field sites to verify the accuracy of the contractor's records with the records maintained at the field sites.

SCOPE OF INSPECTION

Our inspection focused primarily on third-party draft activities that occurred from October 1993 through December 1994. During this period, the National Park Service processed approximately 170,000 third-party drafts, totaling about \$45 million. The inspection was conducted at the Accounting Operations Division in Reston, Virginia; the Southeast Regional Office in Atlanta, Georgia; and three parks under the Southeast Region (Great Smoky Mountains National Park in Gatlinburg, Tennessee; Mammoth Cave National Park in Mammoth Cave, Kentucky; and Stones River National Battlefield in Murfreesboro, Tennessee). Our review was made, as applicable, in accordance with the "Quality Standards for Inspections," issued by the President's Council on Integrity and Efficiency. Accordingly, we included such tests of records and other inspection procedures that were considered necessary under the circumstances.

PRIOR AUDIT COVERAGE

During the past 5 years, the General Accounting Office has not issued any audit reports related to the National Park Service's third-party draft system. However, the Office of Inspector General has issued two audit reports during this period addressing third-party drafts as follows:

- The report "Small Purchases, War in the Pacific National Historical Park, National Park Service" (No. 93-I-292), issued in December 1992, stated that the Park did not adequately control or properly issue third-party drafts. Specifically, the Park Superintendent could both sign and approve third-party drafts, and drafts totaling **\$10,400** were issued for temporary duty travel outside the continental United States and for permanent change of station travel costs. These actions were contrary to Park Service guidelines.

- The report "Selected Administrative Functions, Virgin Islands National Park, National Park Service" (No. 95-I-647), issued in March 1995, stated that the Park did not ensure that adequate controls existed over the issuance of third-party drafts to draft agents. Specifically, from October 1991 to April 1993, 920 drafts issued to agents were not recorded on the draft inventory records maintained by the Park's Administrative Officer.

RESULTS OF INSPECTION

We concluded that the National Park Service's Accounting Operations Division and Southeast Regional Office were generally effective in accounting for and controlling third-party drafts. As a result, we found no instances of improper payments or missing drafts. However, we believe that the Division could reduce its costs of administering third-party drafts by eliminating reviews of field office documentation and by processing contractor invoices expeditiously. Also, the Region and its parks could improve control over third-party draft operations by: (1) performing administrative reviews consistently; (2) using appropriate procedures to obtain draft signature authority for supervisory personnel; (3) instituting better controls over blank draft inventories; (4) recording drafts in the Drafts Issued Log; and (5) complying with procedures in the Imprest Fund Manual.

Accounting Operations Division

Reviews performed by the Accounting Operations Division of documentation supporting third-party draft transactions appeared to be unnecessary and to duplicate field office responsibilities. We also found that delays in processing contractor invoices resulted in interest penalties of at least \$1,441.

Review Procedures. The Park Service's "Policy and Procedures" requires field sites to submit third-party draft transaction documentation to the Division for "audit purposes." This documentation, which includes copies of the issued drafts, requisition forms (Department of the Interior Form DI- 1), and original receipts or invoices, is reviewed by voucher and accounting technicians from the Imprest and Utilities Section. The purpose of these reviews, according to the Section's procedures, is to ensure that: (1) accounting information on the activity reports agrees with the information on the drafts issued; (2) drafts are filled out correctly; (3) travel advances and vouchers are correctly differentiated on the drafts and corresponding activity reports; (4) approval signatures are on attached requisitions or invoices; (5) invoice totals agree with draft payment amounts; (6) payee names on drafts agree with the names on supporting invoices; and (7) purchases made are authorized in accordance with the Park Service's "Policy and Procedures" and the Imprest Fund Manual. According to the Chief, Imprest and Utilities Section, the third-party draft reviews are routinely performed by the Section about a month after drafts have been issued. However, no reports or records are maintained showing the results of the reviews.

We found that these reviews are not as comprehensive as the periodic unannounced administrative reviews of third-party draft activities that regional offices and field sites are required to perform. Specifically, in addition to covering the areas which are included in the Division's review, the regional administrative reviews also enable management to determine whether: (1) blank drafts are being properly controlled and stored; (2) Drafts Issued Logs are being properly maintained and reconciled to daily activity reports; (3) purchases are approved only by authorized requisitioners; and (4) drafts are supported by adequate documentation at the time of issuance.

We believe that the Accounting Operations review function could be eliminated if the Park Service ensured that the required administrative reviews are performed by the field sites, which would allow the Park Service to use the resources currently committed to reviewing third-party draft transactions at Accounting Operations for other purposes. These resources include annual personnel costs (about \$116,000 for 3.5 staff years) and postage costs (\$45,000) for shipping documents from the field (see Appendix 1).

Contractor Payments. We found that 6 of the 12 contractor invoices we reviewed for fiscal year 1994 were paid late, resulting in interest penalties of \$447, and that 1 invoice, with an accrued interest penalty of \$839, was unpaid at the time of our review. The unpaid invoice, dated September 22, 1994, remained unpaid as of February 14, 1995. Similarly, we found that two of the three invoices for the first quarter of fiscal year 1995 remained unpaid as of March 9, 1995, and had accrued interest penalties of \$155 as of that date.

In addition, contractor invoices for fiscal year 1994 and the first quarter of fiscal year 1995 indicated that costs totaling \$6,058 billed for the period September 23-30, 1994, were inappropriately applied to the interim contract for the period October 1 through December 31, 1994. As a result, the invoice containing these charges was paid improperly with appropriated funds applicable to fiscal year 1995.

Southeast Regional Office

Our inspection at the Southeast Regional Office and three of its parks disclosed weaknesses regarding: (1) administrative reviews of third-party draft operations; (2) draft signature authority; (3) blank draft inventories; (4) the Drafts Issued Log; and (5) Imprest Fund Manual procedures.

Administrative Reviews. The Regional Office was not ensuring that required administrative reviews were performed consistently. U.S. Treasury regulations and the Park Service's "Policy and Procedures" require that third-party drafts be subject to existing imprest fund criteria and regulations contained in the Treasury Financial Manual. The National Park Service Imprest Fund Manual, issued in April 1994, requires that unannounced administrative reviews of imprest funds be performed. However, the Park Service had not specifically addressed the requirement for administrative reviews of third-party draft activities in its "Policy and Procedures."

Informal written guidelines established by the Southeast Regional Office state that unannounced reviews of the third-party draft activities of each draft agent are to be performed quarterly, using a suggested questionnaire format developed by the Park Service's Western Region. However, during calendar years 1992 through 1994, only two reviews were performed of third-party draft operations at the Southeast Regional Office, and only one review was performed at Mammoth Cave National Park. No reviews were performed during this period at Great Smoky Mountains National Park and at Stones River National Battlefield. In addition, our review of files maintained by the Southeast Regional Office pertaining to 11 third-party draft field sites indicated that only 4 sites had been reviewed at least once during the 3-year period.

Draft Signature Authority. Signature authority for issuing third-party drafts was inappropriately obtained for supervisory personnel. The regional coordinator and site managers at the Southeast Regional Office and the three parks we visited submitted signature cards to the contractor that authorized them to issue third-party drafts. However, site managers are prohibited by the Park Service's "Policy and Procedures" from acting as third-party draft agents. Although regional coordinators are not specifically prohibited from issuing drafts, effective internal control procedures ensure that supervisory and operational responsibilities for cash handling and record keeping are separated to the extent possible to limit opportunities for the misuse of Government funds. The potential for misuse is greater in this instance because the regional coordinator and the site managers all have access to supplies

of blank drafts and, through their positions, access to the third-party draft disbursement records maintained at the sites. We did not, however, identify any instances where the regional coordinator and the site managers had actually issued drafts.

Controls Over Blank Drafts. We found deficiencies in the controls over the inventories of blank drafts maintained at Mammoth Cave National Park and Stones River National Battlefield as follows:

- At Mammoth Cave, the safe containing the blank draft inventory was open and unattended during our physical observation of the inventory; weekly physical inventories of blank drafts were not performed; and excess numbers of blank drafts were maintained. The Park Service recommends that a 2- to 6-month supply of blank drafts be kept on hand. We estimated that the supply at Mammoth Cave exceeded the 6-month requirement by 1,300, based on the average number of drafts (about 300) the Park issued in a 6-month period.

- At Stones River, the site manager was maintaining 297 blank drafts, which is 177 more than the 120 drafts required for a 6-month supply. The site manager stated that this number was maintained because the Regional Office established the minimum draft order quantity at 500. In our opinion, field sites should be able to order only the specific number of blank drafts they need to maintain a 6-month supply.

Drafts Issued Log. We found that 25 drafts prepared for travel reimbursements or advances, which were complete except for the agent's signature, were not entered into the Drafts Issued Log at the Regional Office. According to the agent, drafts are not entered into the Log until after they are signed and officially issued. We believe that drafts should be entered in the Drafts Issued Log when prepared, because if the drafts are lost or stolen before issuance, the Log will provide a record of the payees and draft amounts.

Imprest Fund Procedures. We reviewed supporting documentation for third-party draft transactions and found noncompliance with requirements in the Park Service's Imprest Fund Manual as follows:

- At the Regional Office, of 44 third-party drafts issued:
 - Nine drafts did not have requisitioner signatures; approving signatures; approval by authorized individuals; and/or legible signatures.
 - Fourteen drafts were supported by requisitions with inadequate or missing written justifications.

-- Thirty-six drafts were not supported by vendor invoices properly stamped as "paid," which increases the risk of a duplicate payment.

- At Great Smoky Mountains National Park, of 84 third-party drafts issued:

-- Eleven of 59 drafts reviewed for one agent were not supported by adequate requisitions. The agent said that requisitions were not required in 8 of the 11 cases because the Accounting Operations Division did not require requisitions for utility payments. However, the agent could not provide specific documentation for this policy. In two cases, the supporting requisitions did not have approval signatures, and in one other case, the supporting requisition was approved by an individual for an amount that exceeded the individual's authorized requisition limit set by the Park Superintendent. An additional 35 drafts were not supported by requisitions containing written justifications but were issued based on the approval of the contracting officer. None of the vendor invoices and requisitions supporting the 59 drafts were stamped "paid."

-- Eight of 25 drafts of another agent were for travel vouchers that did not have signatory approval (2 vouchers) or have both the traveler's signature and an approval signature (6 vouchers). According to the agent, the original documentation containing the proper signatures was forwarded to the Accounting Operations Division. None of the vendor invoices, requisitions, or travel vouchers supporting the 25 drafts were stamped "paid."

- At Mammoth Cave National Park, requisitions supporting 3 of 60 drafts did not have an approval signature, and one other requisition was approved by an unauthorized individual. The agent stated that the contracting officer approved the drafts.

- At Stones River National Battlefield, we reviewed 60 third-party draft transactions. The Administrative Officer, who is also the third-party draft site manager and the contracting officer, routinely signed as the approving official on requisitions in place of the approving officials formally designated by the Superintendent. The Administrative Officer stated that the intent in signing as the approving official was to certify the purchases as legal, but she agreed that only appropriately designated Division personnel should be signing as approving officials. In addition, requisitions for third-party drafts were not stamped "paid."

Recommendations

We recommend that the Director, National Park Service:

1. Ensure that the Accounting Operations Division eliminates its requirement for obtaining and reviewing all supporting documentation for third-party draft transactions.
2. Implement procedures to ensure that payments for services to the third-party draft contractor are made promptly and recorded properly in budget and accounting records.
3. Ensure that procedures for performing on-site administrative reviews are established by the Accounting Operations Division and that the reviews are appropriately performed at the regional and field offices.
4. Ensure that site managers and regional coordinators are not authorized to act as third-party draft agents.
5. Ensure that inventories of blank drafts on hand are minimized and properly controlled and that all third-party drafts are issued in accordance with established policies and procedures. This action could result in regional requirements for the number of blank drafts on hand being rescinded, such as the requirement at the Southeast Region that restricts reorder quantities to a minimum of 500 drafts.
6. Ensure compliance with requirements in the Imprest Fund Manual as they relate to third-party drafts; for example, the supporting documentation should have appropriate signatures and adequate justifications and should be stamped “paid.”

National Park Service Response and Office of Inspector General Reply

In its February 26, 1996, response (Appendix 2) to the draft report, the Park Service concurred with all six recommendations. Based on the response, Recommendations 1, 3, 4, and 6 are considered resolved but not implemented, and Recommendations 2 and 5 require additional information. The unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation (see Appendix 3).

Recommendation 2. Concurrence.

Park Service Response. The Park Service stated that the interest penalties of at least \$1,441 incurred as a result of delays in paying contractor invoices were an “immaterial” amount and that payments to the contractor were “quite timely.” The Park Service further stated that the interest penalties were “minuscule” in relation to the “costs of processing imprest fund replenishments and other transactions, and Treasury financing of higher imprest fund cash levels, if the third-party draft program was not being used.” The Park Service stated that its “goal is to avoid paying interest” and that it would “continue [its] efforts to meet this goal.”

Office of Inspector General Reply. We agree that the use of third-party drafts results in cost savings to the Government. However, we believe that in this situation, any interest penalties incurred by the Government are unnecessary because proper payment procedures, if followed, should prevent delayed payments. Since the Park Service agreed that penalty interest should be avoided but did not specify the procedures to be used to accomplish this goal, we request that the Park Service provide the information noted in Appendix 3.

Additional Comments

Park Service Response. In its response, the Park Service stated that it could “find no fault” with the Southeast Regional Office’s procedure of partially preparing third-party drafts (filling out the payee and the amount to be paid sections of the blank drafts) but not entering these drafts into the Drafts Issued Log until the drafts were signed and dated by the draft agent. The Park Service also stated that since the draft agent had not transferred control of the drafts to the payee, the drafts had not “technically” been issued and therefore did not need to be recorded as an “issued” payment instrument. The Park Service stated that even if the partially prepared drafts not entered into the Drafts Issued Log were lost or stolen before they were issued, the Park Service would not be liable for the lost funds because the contractor bank is liable for drafts honored with unauthorized or fraudulent signatures. The Park Service further stated that the Regional Office’s procedure provided for “efficient use” of the time of both the draft agent and the payee, since the draft was prepared before its actual issuance date, at which time it was recorded in the Log.

Office of Inspector General Reply. Third-party drafts are accountable documents. As such, the documents should be safeguarded and their status readily determinable at all times. Under the current system, there is no record of the status or location of partially completed drafts that have been removed from the draft inventory and placed in another location (for example, a desk drawer or a filing cabinet) for signature and distribution at a later date. In our opinion, the most convenient and effective way to control partially completed drafts is to record them in the Drafts Issued Log. A notation in the Log could be used to designate those drafts that are in the partial completion stage and have not yet been issued.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by May 29, 1996. The response should provide the information requested in Appendix 3.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit

recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Assistant Secretary for Fish and Wildlife and Parks
Audit Liaison Officer, Fish and Wildlife and Parks
Audit Liaison Officer, National Park Service
Chief, Division of Management Control and Audit Follow-up,
Office of Financial Management

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Funds To Be Put To Better Use *</u>
Replacement of Current Method of Reviewing Third-Party Drafts	
Personnel	<u>\$116,000**</u>
Postage	<u>45,000***</u>
Total	<u>\$161,000****</u>

*Estimated annual funds.

**We interviewed 13 staff members and determined that 25 percent of their time was spent on third-party drafts. To obtain our estimate, we multiplied this percentage times the authorized staffing level of 15 personnel times the average annual earnings and benefits of 14 current staff (25 percent X 15 X \$30,989).

***We obtained our estimate by determining the average number of sites reporting per day and the postage cost of an average size mailing multiplied by the number of Government business days in the calendar year (178 X \$1.01 X 250).

****The total does not include applicable costs such as the storage and handling of third-party draft documents mailed to the Accounting Operations Division and the additional costs of copying documents for field site use.



United States Department of the Interior

APPENDIX 2
Page 1 of 4

TAKE
PRIDE IN
AMERICA

NATIONAL PARK SERVICE
P.O. Box 37127
Washington, D.C. 20013-7127

IN REPLY REFER TO:

F4217 (309)

February 26, 1996

Memorandum

To: Assistant Inspector General for Audits

Via: Management Officer, National Park Service

From: Director, Accounting Operations Center

Subject: Draft Inspection Report - Management of Third-Party Drafts at Selected Locations, National Park Service; Report No. E-IN-NPS-003-95

7/2/96

This is in response to the recommendations contained in the subject report dated February 1996.

Recommendation 1: Ensure that the Accounting Operations Division eliminates its requirement for obtaining and reviewing all supporting documentation for third-party draft transactions.

When the third-party draft payment system was implemented, we wanted to ensure that this new disbursement method being made available to parks and offices had adequate controls that were working properly. Accordingly, the Accounting Operations Center (AOC, formerly a Division) was assigned the responsibility to review third-party draft payments and supporting documentation to ensure compliance with policy, that payments were proper, and that Servicewide procedures were being followed.

Over the 6 years that this program has been in use, the AOC's reviews of transactions indicate that third-party draft payments are proper and the controls are adequate. The Draft Inspection Report indicates that NPS policies and procedures as they apply to field operations, if followed, provide adequate controls. Further, the Office of Inspector General auditors ". . . found no instances of improper payments" Given these results, we concur with the recommendation.

We will issue an revision to the third-party draft policies and procedures that will eliminate the requirement for draft sites to submit transaction documentation to the AOC for review. We intend to issue the revision by April 1, 1996. The responsible official is the Management Systems Team Leader, AOC.

Recommendation 2: Implement procedures to ensure that payments for services to the third-party draft contractor are paid promptly and recorded properly in budget and accounting records.

The auditors determined that delays in processing contractor invoices resulted in interest penalties of at least \$1,441. We believe that this interest cost is an immaterial amount (about one-half of one per cent) which indicates, if anything, that payments to the contractor are quite timely. In addition, the interest cost is minuscule compared to the cost of processing imprest fund replenishments and other transactions, and Treasury financing of higher imprest fund cash levels, if the third-party draft program was not being used. Nevertheless, our goal is to avoid paying interest and we will continue our efforts to meet this goal.

The second part of the recommendation refers to an invoice which included charges applicable to the last week of September 1994 with charges applicable to October processing. The costs should have been split between fiscal year 1994 and fiscal year 1995; however, the entire billing was charged to FY 1995. We agree that costs should be charged to the year to which they apply. During our negotiations with Chemical Bank on the new contract issued in January 1995, we requested that monthly invoices include charges only for fees applicable to draft processing during the month to which the invoice applies. Our reviews of the invoices for September and October 1995 indicate compliance with the request in that all charges applied only to drafts honored during each of those months. Therefore, we consider actions in response to this recommendation completed.

Recommendation 3. Ensure that procedures for performing on-site administrative reviews are established by the Accounting Operations Division and that the reviews are appropriately performed at the regional and field offices.

The revised third-party draft policies and procedures that prescribe the administrative review process and responsible offices or officials will be issued by April 1, 1996. A report of on-site reviews, similar to administrative reviews of imprest funds, will be the tool used to verify compliance with NPS third-party draft policies and procedures and with Treasury's Manual for Imprest Fund Cashiers. The responsible official for completing the requirements of this recommendation is the Management Systems Team Leader, AOC.

Recommendation 4. Ensure that site managers and regional coordinators are not authorized to act as third-party draft agents.

The revised third-party draft policies and procedures, as does the current version, will stipulate the authorities and responsibilities of the draft agent, site manager, and system coordinator. The administrative review process, described under

recommendation 3, will measure compliance with their respective authorities and responsibilities. As mentioned previously, the policies and procedures will be issued by April 1, 1996, and the responsible official is the Management Systems Team Leader, AOC.

Recommendation 5. Ensure that inventories of blank drafts on hand are minimized and properly controlled and that all third-party drafts are issued in accordance with established policies and procedures. This action could result in regional requirements for the number of blank drafts on hand being rescinded, such as the requirement at the Southeast Region that restricts reorder quantities to a minimum of 500 drafts.

The revised policies and procedures, as with current guidance, will address quantities, control of blank drafts, and requirements regarding payments.

Regarding reorder quantities, the minimum was not established by the Southeast Regional Office. Chemical Bank's third-party draft printing contractor set the reorder quantity. We agree that the number of blank drafts should be minimized; however, we must also consider whether our costs would increase if we require the printing company, through Chemical Bank, to reduce the minimum quantity since there may be increased printing costs for smaller print jobs. We will explore the possibility of a lower minimum quantity with Chemical Bank.

The responsible official regarding this recommendation is the Management Systems Team Leader.

Recommendation 6. Ensure compliance with requirements in the Imprest Fund Manual as they relate to third-party drafts; for example, the supporting documentation should have appropriate signatures and adequate justifications and should be stamped "paid."

The revised policies and procedures including periodic administrative reviews will be used to ensure compliance with imprest fund payment requirements. The revised procedures will be issued by April 1 and will be the responsibility of the Management Systems Team Leader.

Reported in the findings but not included specifically in the recommendations, was discussion regarding procedures for entries in the drafts issued log at the Southeast Regional Office. During our discussions with the audit staff on this subject, we were told that sometimes drafts are prepared for issue but are not dated or signed by the draft agent nor entered into the log until the agent is about to give the draft to the payee, such as an employee being given a travel advance or reimbursement. As we understand it, the audit staff believes the draft should be recorded in the drafts issued log as soon as it is prepared regardless of whether the draft is being given to the payee later.

We find no fault with the regional office procedure since, if the agent has not released the draft thereby transferring control of it to the payee, then, technically, the draft has not been issued. Therefore, the draft doesn't necessarily have to be recorded as an "issued" payment instrument. In addition, the audit staff did not indicate that the partially prepared drafts were not secured properly pending issue, and even if they were lost or stolen prior to issuance, it would not expose the Service to risk of lost funds since the contractor bank is liable should it honor a draft with a fraudulent or unauthorized signature.

Further, we believe the procedure provides for efficient use of the draft agent's time when reviewing payment requests on hand and preparing drafts for issue, and the payee's time since all work has been performed by the agent prior to the employee's arrival to receive payment. The employee only has to wait for the date and signature to be entered on the draft to receive payment, at which time the draft is recorded in the log as issued. We request the OIG to reconsider its opinion regarding this procedure.



Jon T. Shrum

STATUS OF INSPECTION REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1, 3, 4, and 6	Resolved; not implemented	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
	Management concurs; additional information needed.	Provide an action plan that includes a target date for implementation and the title of the official responsible for implementation.
5	Management concurs; additional information needed.	Provide a target date for implementation.

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